

Corporate Disclosure **Environment**

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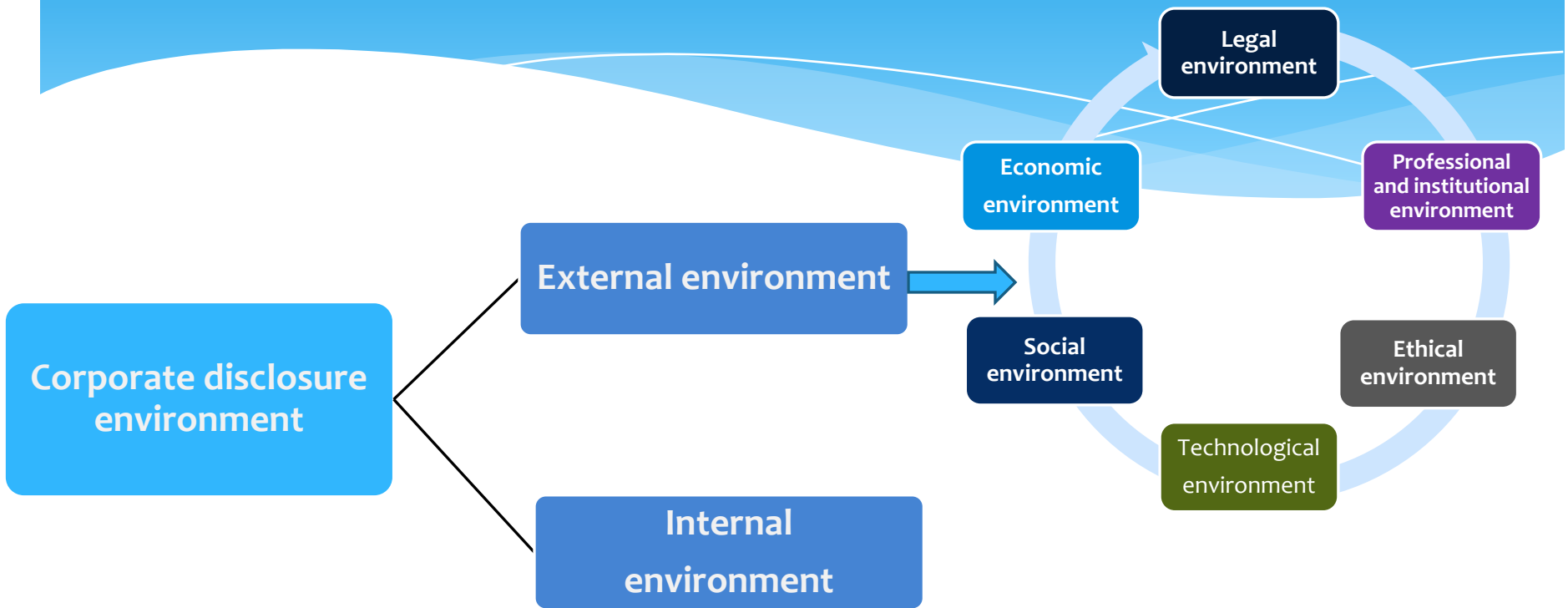
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Meaning

An understanding of financial accounting depends not only on delineation of accounting principles, the features and objectives of accounting, but also on an understanding of the environment within which financial accounting operates and which it is intended to reflect. accounting and reporting exists and growth within a larger economic , political and social environment which keep on changing in a country as a time passes.

since accounting concepts operate in theses environment , they have to be in time with in the changing environment.



Legal environment

Accounting theory methodology and practice are influenced strongly by requirements in companies Act or in legal or tax decrees or other regulatory measures, such as Monopolistic and Restrictive trade practices (MRTP) Act , Foreign Exchange Regulation Act(FERA).

This increases the comparability and usefulness of accounting information .Neither the absence of legal and statutory measures, nor the strict adherence is desirable . It depends upon the stage of economic and social development in a country.



Legal framework and security regulatory agencies

1. **FASB:** It stands for Financial Accounting Standards Board . In USA the private sector is dominant . The statement are issued from time to time about concepts and standards by FASB.
2. **AICPA:** Its full form is American institution of Certified Public Accountants. The regulatory guidelines issued by AICPA and others have self regulating mechanism.
3. **SEC:** The role of Security and Exchange Commission is partly supportive party regulatory.
4. **SEBI:** The Security and Exchange Board of India is the regulator for securities in India. It's basic function is to protect the interest of investors and to promote development. It issues guidelines from time to time.

Companies Act 2013

Financial statement of company: Section 129 of companies Act, 2013 make it compulsory for the joint stock company to prepare it's final account every year in the prescribed manner. The final account of the company consist of statement of Profit and Loss account and Balance Sheet. In case the company has not been carrying on business for profits, an Income and Expenditure account shall be laid before the company at it's annual general meeting.

Taxation Regulation

The preparation of income tax returns necessitated the maintenance of accounts by the firm who did not keep records before they necessary for tax purposes. Income tax regulations have been helpful in establishing general procedures in accounting which have been stimulating in the development of accounting theory . Income tax laws have been influential in the development of accounting theories in many ways :

1. Income tax laws have been instrumental in bringing improvements in general accounting practices and in the maintenance of consistency.
2. The brought awaking and as a result ; even small firms started maintaining accounts so that they may be able to file income tax returns.
3. They were instrumental in finding out good methods and providing depreciation on fixed assets.
4. The general principle of valuing stock at cost or market price whichever is less is the outcome of Income tax regulation.

MRTTP Act :

Monopolistic and Restricted trade practice act has a vital role influence in avoiding the existence and growth of monopolistic and restricted trade practices.

FEMA :

Foreign Exchange Management Act governs rules and regulations regarding the foreign exchange transactions and their treatment in accounts.

The influence of government regulatory bodies :

The regulation of public service corporation in different countries influenced accounting thoughts by forcing the regulatory firms to follow up to date accounting practices and uniform system so that interfirm comparisons can be made .



Stock Exchanges:

A stock exchange is a form of exchange which provide services for stock brokers and traders to trade stock, bonds and other securities.

- Listing agreement rules of different stock exchanges affect corporate reporting.
- Stock exchanges sometimes urge to listing companies to measure and report on various issues. E.g. NASDAQ become the first to urge listed corporations to report on environmental and social issue.

Separate Statutory Bodies For Different Units:

For different corporate units there are different regulatory and governing bodies , the provision of which affected the corporate reporting such as: In India for banking corporations , there is Banking Regulation Act similarly for insurance corporations , there is Insurance Regulatory and Development authority in India.

Professional Environment



Accounting its nature and growth is generally influenced by the professional institutions and accounting bodies operating in the country.

The developed countries like U.S.A and U.K the accounting bodies have been found since a long time. Therefore , in these countries accounting professionals is highly developed.

On the other hand, in most developing countries , the accounting is still in developing stage. In India accounting professional is said to be developed and there is well-developed system for accounting.

- **Professional Ethics**
- **Code of conduct** by professional bodies such as **ICAI, ICWAI, AICPA** etc.
- **Accounting Standards** issued by professional bodies.

These all affects the corporate reporting and that is why , professional environment constitute an indispensable part of corporate disclosure environment.

There is an increasing awareness in developing countries of the need for sound functioning of accounting institute that set standards in accounting.

Social Environment

It is well recognized that corporate activities have economic as well as social impact on society. We have reached a stage where cost benefit analysis is considered more important than a limited study of revenue and expenses.

A. Social Accounting: social accounting includes accounting for socio-economic facets dealing for example with poverty, social security, ecology and a whole range of other aspects in a society for which accounting measurement and reporting are warranted .Even corporate bodies have to lack social aspects into consideration.

In other words social accounting is that branch of accounting which studies cost incurred and benefit derived from society. Different methods have been evolved to prepare **profit and loss account and balance sheet** from society point of view. Environment accounting is further classification of social accounting.

B. Human resource Accounting: it involves due to awareness towards human resources of the organization. Different methods for evaluation for human resources were developed, among which LEV and SCHWARTZ model is widely used for valuation of human resources . Human resource accounting improves the efficiency of human resources of the organization.

Economic Environment

With the economic development of the country, accounting systems assume higher significance. There have been many stages of growth in accounting systems. For centuries after the system of double entry book keeping appeared, accounting was devoid of methodology on any form of theory.

It was in the nineteenth century that we saw a move from book keeping to accounting----a move from the relatively simple recording and analysis of transactions towards a comprehensive accounting information system. Finally in this century a theoretical framework begun to develop which provided technical means to measures value and communicate information of economic and financial nature.

Economic Changes			
Industrial revolution	Development of corporations	Globalization	Development of planning , budgeting and control techniques.

Industrial Revolution

The industrial revolution brought about significant change in accounting thoughts both directly and indirectly.

Direct effects:

- Development of concept of depreciation
- Development of cost accounting

Indirect effects:

- Greater adherence to historical cost
- Distinguish between capital and revenue items
- Development of standard costing

Development of corporations

The development of corporations and the growth of industrial and financial giants through mergers provided an opportunity for the investment of capital over indefinite time.

Effects:

- **Further development of going concern concept**
- **Further development of entity theory**
- **Development of management accounting**
- **Preparation of public accounts**
- **Methods of inventory valuation**

Development of planning, budgeting and control techniques

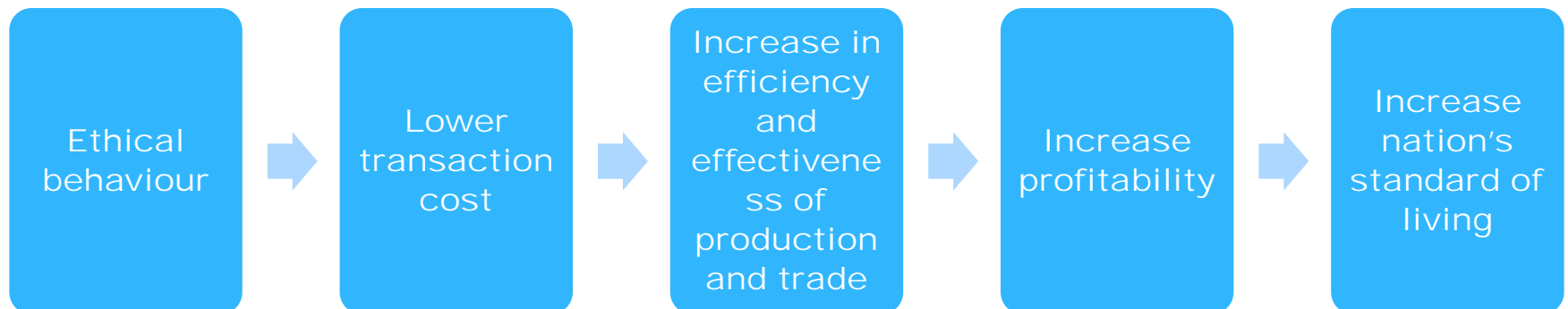
Government accounting has been linked to taxation , revenue control, recording, accountability of receipts, and expenditures. In developing countries it continues to be the same. In develop countries planning, budgeting and control technique is a development of the 20th century.

Globalisation

Globalisation is a process of integration and interaction of organization and people all over the world through trade and investment. Hence it becomes important for organization to prepare and present their information in a way that is relevant, timely assessable and comparable.

Ethical Environment

Businesses are required to behave ethically. The relentless pursuits of self-interest can lead to collective disaster. Today the concept of ethical behaviour is widely admired.



Technological Environment

Technological environment has brought a remarkable changes in the style of corporate disclosure organizations have to be in tune with the changing environment.

Reporting through web now organizations are providing the information on their web sites. Full view of annual reports, interim reports etc. Various technologies associated with web reporting are

- Static representation
- Multimedia enhancement
- User interaction and knowledge management



Internal Environment

Informational needs of management:

- To draft policies
- For cost control purposes
- To set the co-ordination between various departments of the business
- To take various important decisions
- Comparison



Conclusion

It is clear that accounting structure and processes are influenced by social, economic, legal statutory, professional, institutional and other consideration. To be in changing environment , disclosure made by corporations are also get affected.



Thank you

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«Сирічка»